1A - Presentation Other Revenues & Capital Outlay

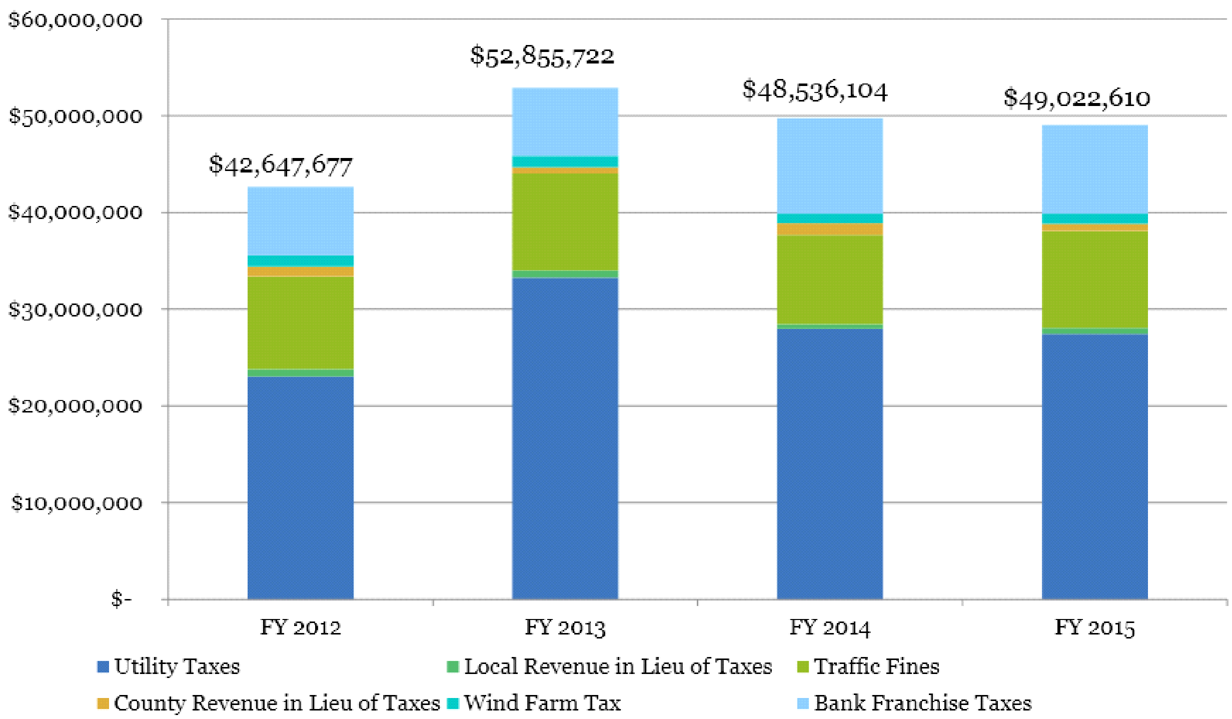
Wednesday, January 27, 2016
8:51 AM

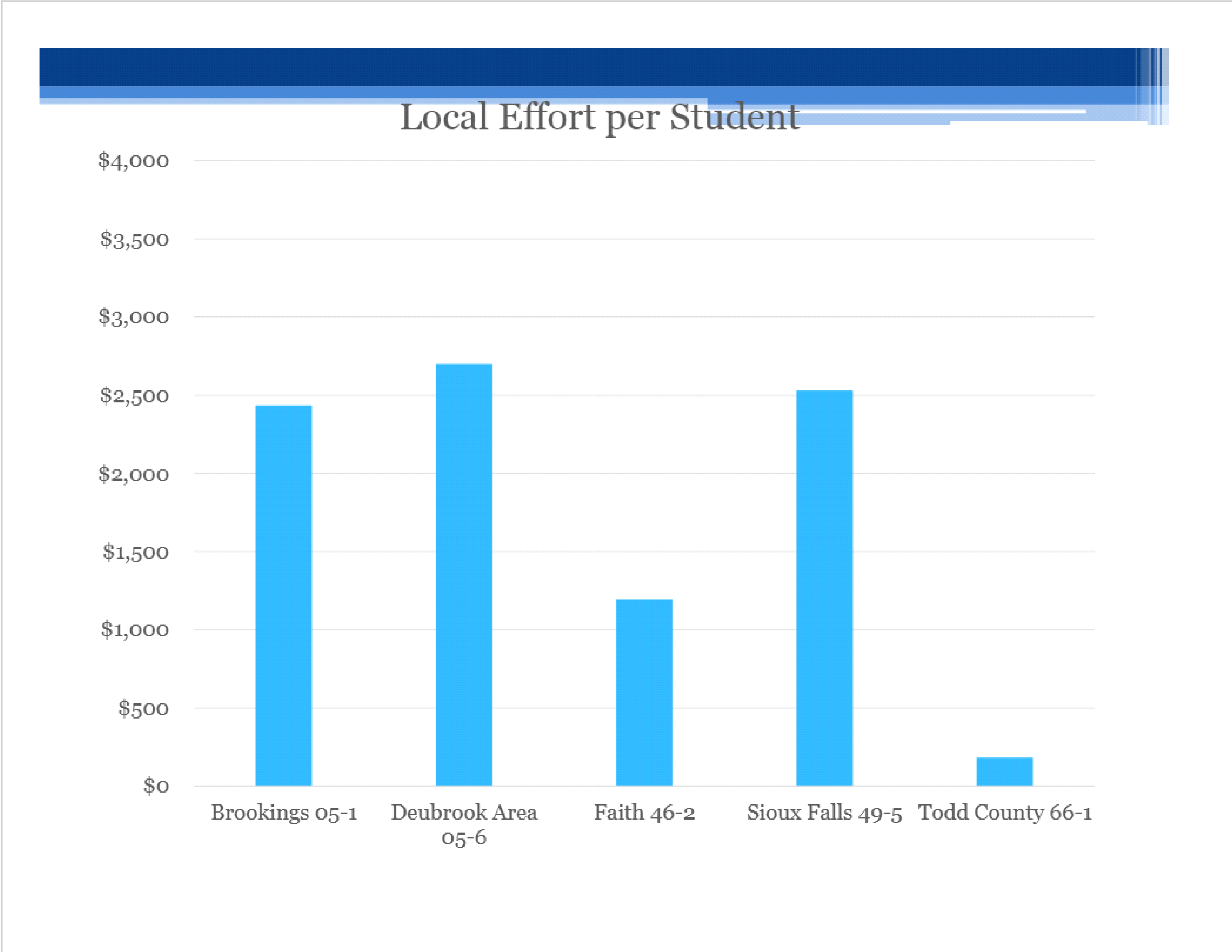
Blue Ribbon Task Force Recommendations: Other Revenues and Capital Outlay

Presentation to the Joint Committee on Appropriations
January 27, 2016

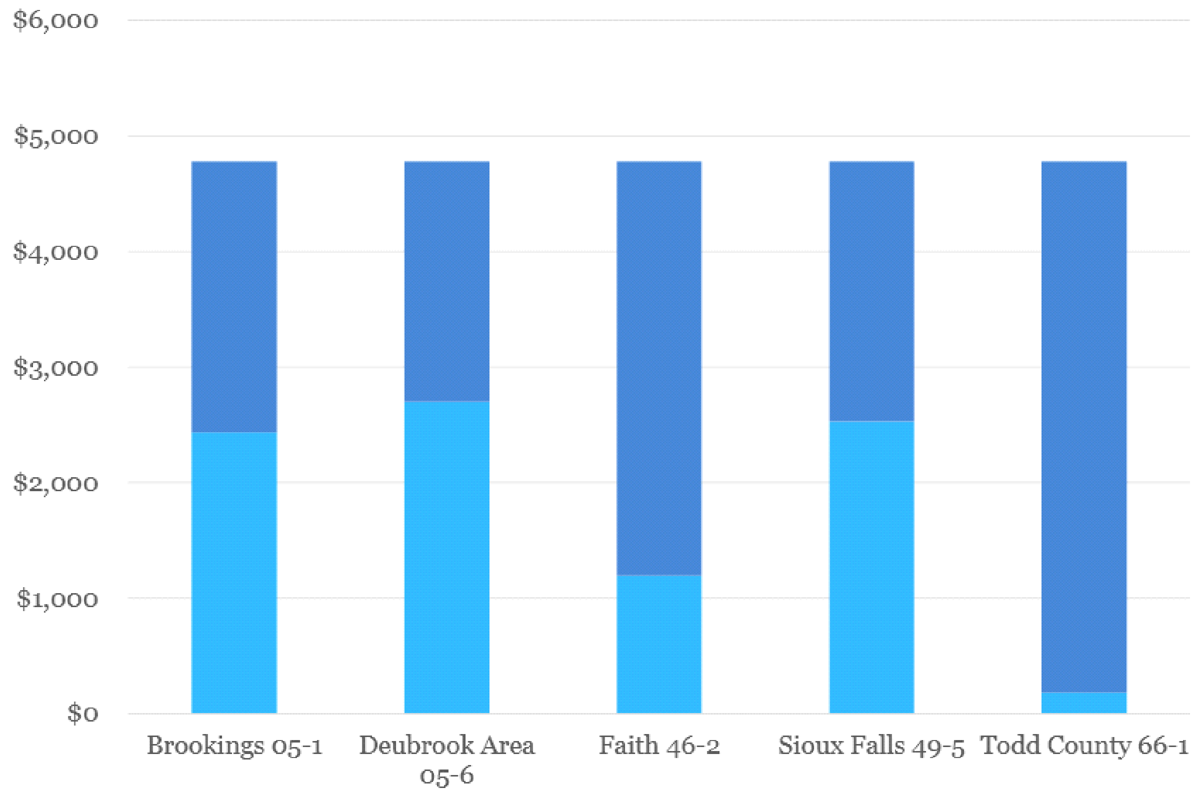
Task Force Findings

Total Other Revenues by Year

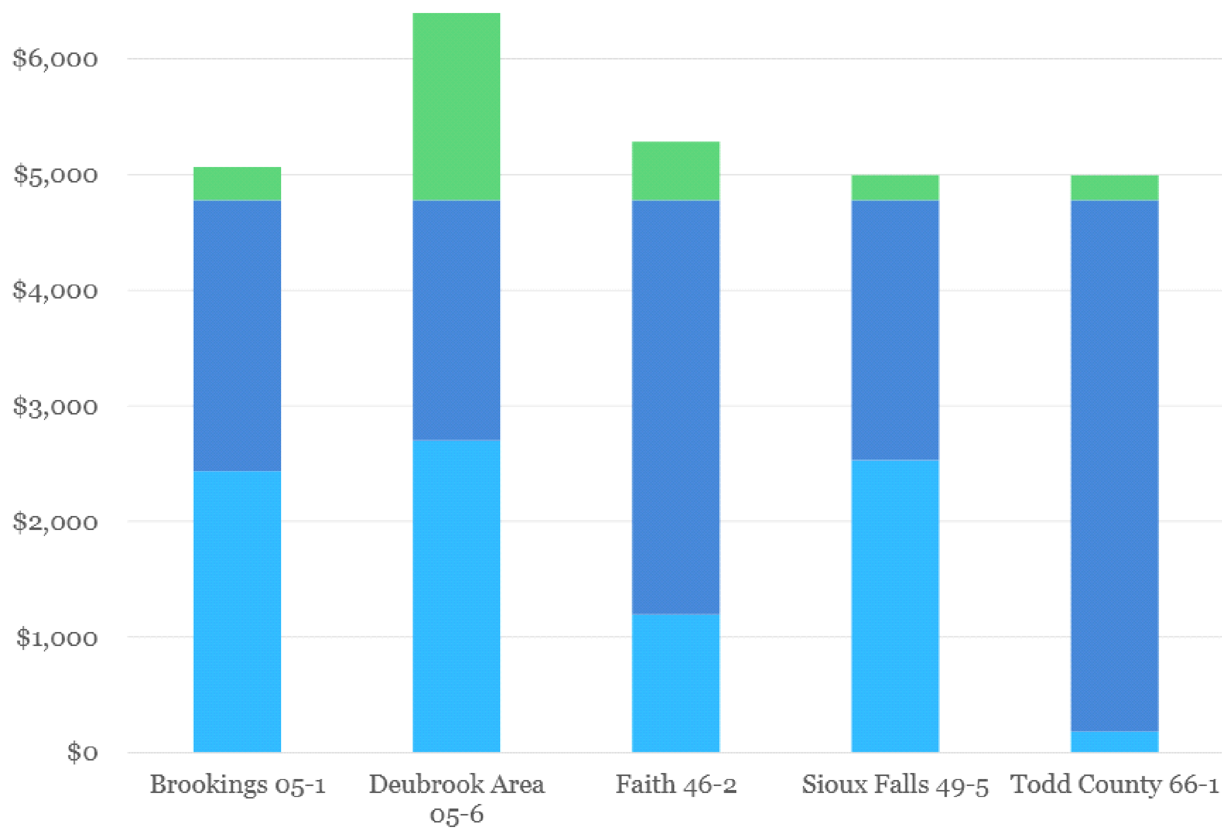



Local Effort per Student
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
Brookings 05-1
Deubrook Area 05-6
Faith 46-2
Sioux Falls 49-5
Todd County 66-1

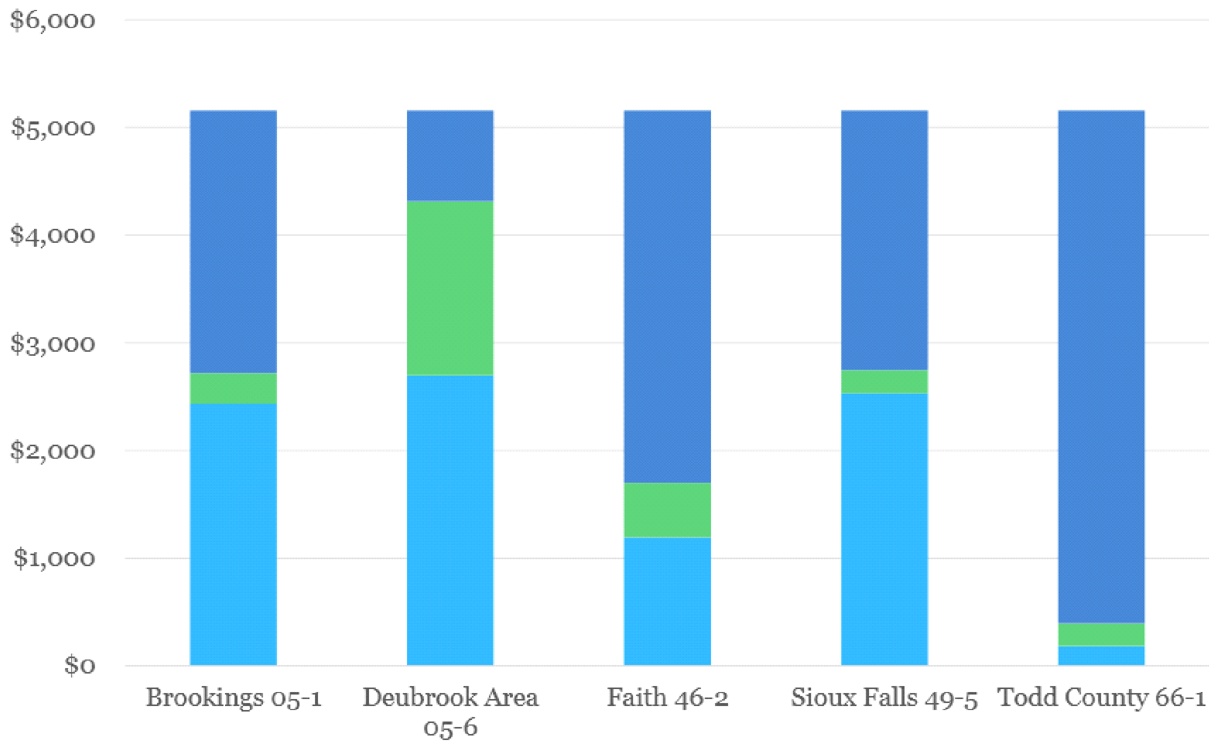
Local Effort + State Aid



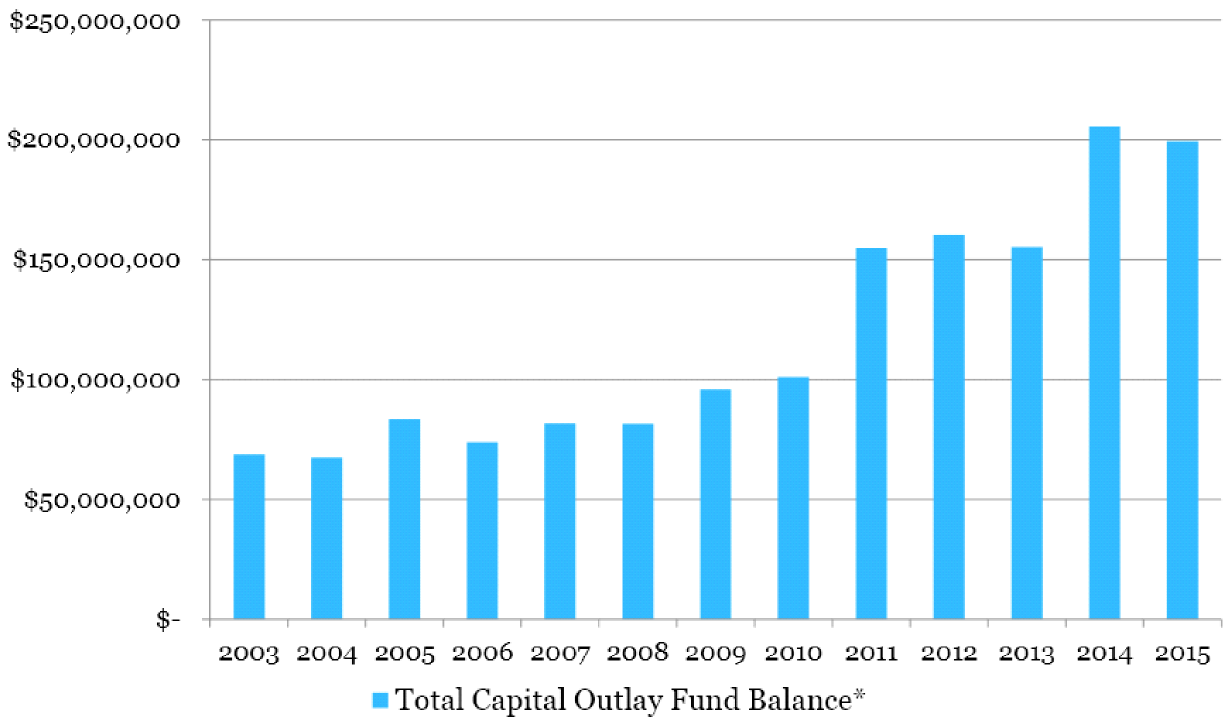
Local Effort + State Aid + Other Revenue



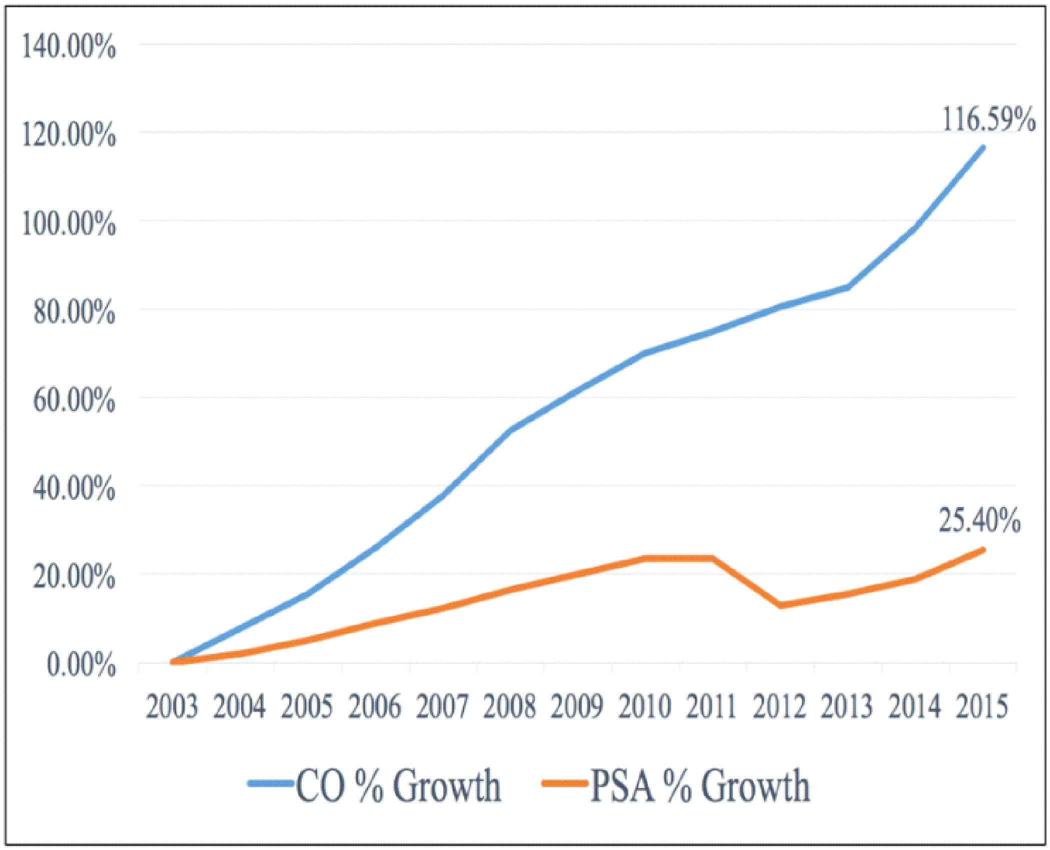
Proposed Local Effort + Other Revenue + State Aid



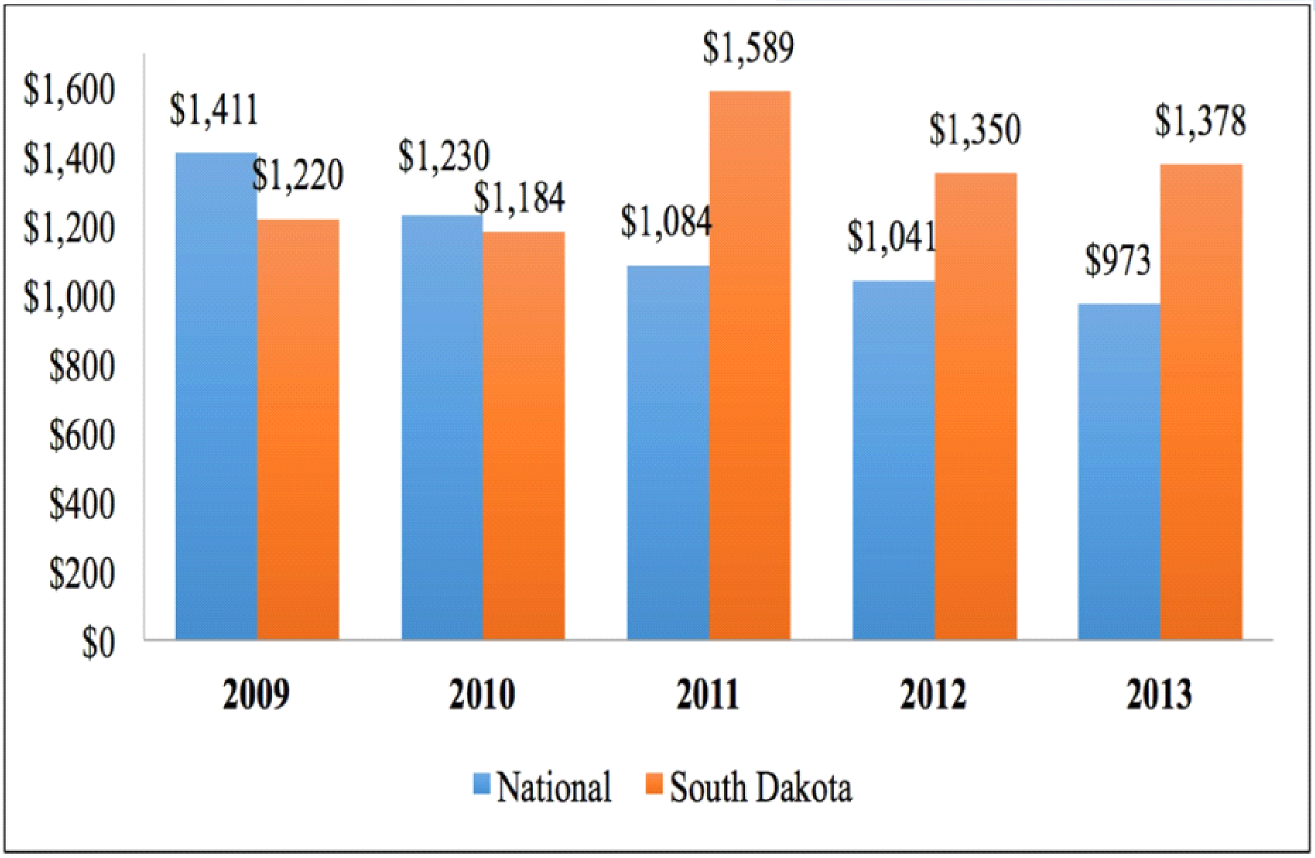
Capital Outlay Fund Balances



**Changes in GASB 54 were implemented in FY2011 and changed how districts report fund balance information*



140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
116.59%
25.40%
2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
CO % Growth
PSA % Growth



$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$1,411
$1,220
$1,230
$1,184
$1,084
$1,589
$1,041
$1,350
$973
$1,378
2009
2010
2011
2012
2013
National
South Dakota

Capital Outlay

- Problem 1 – Capital Outlay has grown too quickly.

- Solution
  - Limit the growth on the maximum Capital Outlay a school district may collect to 3% or inflation, whichever is less.
  - Make schools request Capital Outlay in a dollar amount, not a mill levy.

Capital Outlay

- Problem 2 – There is too much money in Capital Outlay that schools can't use for teacher pay.

- Solution
  - Capital Outlay Flexibility
  - Schools will be able to use 45% of Capital Outlay dollars to cover any operations, including salaries.

Capital Outlay

- Problem 3 – Some schools with few students and high property valuations levy too much Capital Outlay.

- Solution
  - Cap Capital Outlay requests at $2,800 per student.
  - $1,400 is the state average.

Proposal

Equalization of Other Revenues

- Proposal is to equalize 6 sources of revenue that have the characteristics of a state tax:
  - Gross receipts tax on utilities
  - Wind Farm Tax
  - Bank Franchise Tax
  - Local revenue in lieu of taxes
  - County apportionment (i.e. traffic fines)
  - County revenue in lieu of taxes

- These revenues would be recognized as local effort in the state aid to education funding formula

- Would begin in FY2018

Step Down Plan

- A base amount would be calculated for each district based on the greatest amount of annual collections over a 3 year period
- In Year 1, FY2018, the districts would be held harmless at the base amount and only revenues above that base would equalized
- In Years 2-5, FY2019 – 2022, the base would step down by 20% each year until in Year 6, FY2023, all of these other revenues would be recognized as local effort

Calculation of Base Amount

Compare FY2013, FY2014, and FY2015 and find the year with the highest revenue:

District A

FY2013 = $356,000

FY2014 = $485,000

FY2015 = $423,000

In this scenario, FY2014 is the highest. So District A's base would be calculated off of $485,000.

Year 1

For FY2018, the base is 100% of the highest amount from FY2013 through FY2015 compared to FY2016 actual revenues.

	District A	District B
Max FY13-15	$485,000	$485,000
Base (100%)	$485,000	$485,000
FY16 Actual	$420,000	$500,000
FY18 to be Equalized	$ 0	$ 15,000

Only amounts above the base would be rolled into the formula as contributions toward local effort

Year 2

For FY2019, the base is 80% of the highest amount from the FY2013 through FY2015 compared to FY2017 actual revenues.

	District A	District B
Max FY13-15	$485,000	$485,000
Base (80%)	$388,000	$388,000
FY17 Actual	$400,000	$520,000
FY19 to be Equalized	$ 12,000	$132,000

Only amounts above the base would be rolled into the formula as contributions toward local effort

Years 3-5

Each year the base amount would step down by 20%. The base percentage is still applied to the highest revenue amount established by comparing FY2013 – FY2015 revenues.

- FY 2020 = 60% compared to FY2018 actual revenues
- FY 2021 = 40% compared to FY2019 actual revenues
- FY 2022 = 20% compared to FY2020 actual revenues
- FY 2023 and future = 0%

Starting in FY2023, all other revenues would be equalized.

Distribution Through Formula

- Sum the amount for all districts whose other revenues exceed the base amount for the year being calculated
- Adjust formula so that the formula total need is increased by the sum of the amounts that exceed the base
- Other revenues would only be counted as local effort for those districts whose other revenues exceed the base amount for the year and for that amount.

Capital Outlay

4 changes to Capital Outlay are being proposed:

1. Repeal the sunset of the temporary capital outlay flexibilities and make them permanent

2. Require annual requests for capital outlay in the form a dollar amount instead of a levy

3. Limit future capital outlay growth to increase by 3% or inflation, whichever is less, plus new construction

4. Impose an alternative maximum on capital outlay collections at $2800 per student
   - This amount will increase annually by 3% or inflation, whichever is less
   - Would take effect in FY2021

Current Capital Outlay Flexibilities

- Sunset - June 30, 2018

- Allowable uses:
  - Purchase of property and casualty insurance
  - Payments for energy costs and costs of utilities
  - Purchase of motor fuel
  - For any portion of a contract providing transportation to students or for any mileage reimbursement

- Allowable Amount: 45% of capital outlay tax revenue that would have been deposited if the tax levy had not increased since 2008

Proposed Capital Outlay Flexibilities

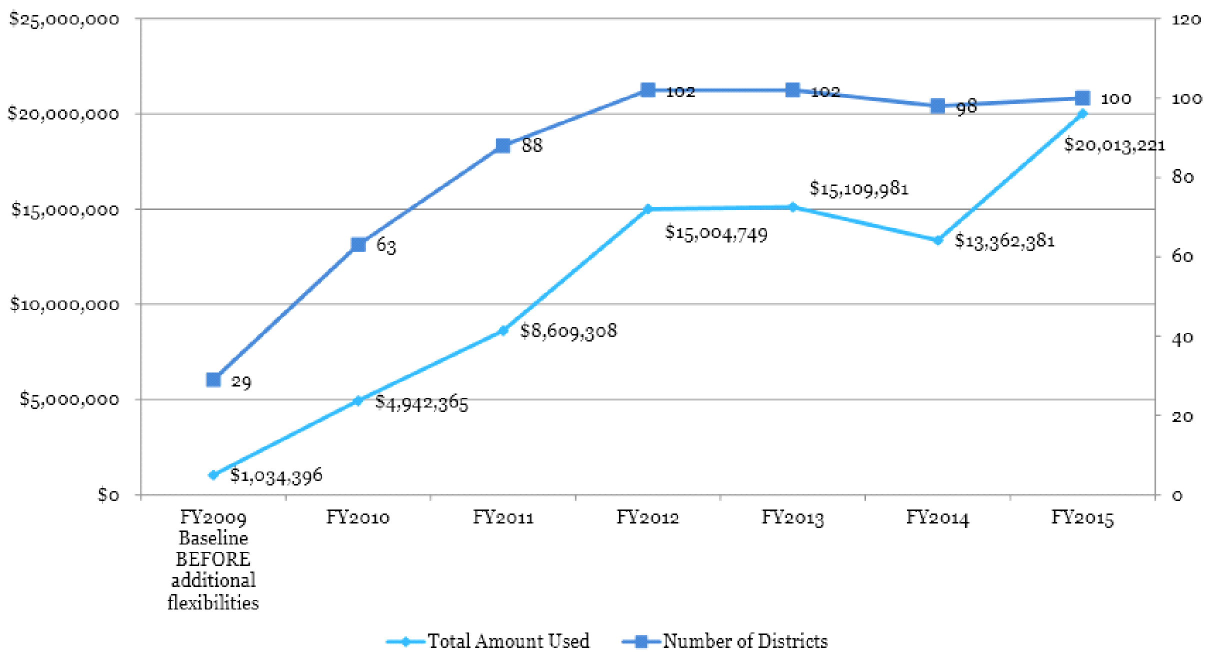
- Sunset – None

- Allowable uses:
  - ANY general fund purpose

- Allowable Amount: 45% of capital outlay tax revenues

The state would not mandate that any current capital outlay funds be shifted to general fund purposes and the proposal has no effect on the general education levies.

Usage of Capital Outlay Flexibilities



Based on what districts are reporting in annual financial report under the accounting codes for those areas. Note that some districts were reporting expenditures under these codes prior to the flexibilities.

More Information

For a copy of this presentation and other information specific to the Blue Ribbon Task Force visit

http://doe.sd.gov/secretary/2016legislature.aspx